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MANAGEMENT BULLETIN 02-03

May 24, 2002

To: County and District Superintendents
Charter School Administrators

Attention: County and District Chief Business Officers

From: Susan Lange, Deputy Superintendent
Finance, Technology and Administration Branch

Subject: **MAY 2002 BUDGET REVISION**

On May 14, 2002, Governor Gray Davis released his revised budget proposal for the 2002-03 fiscal year. In the interest of providing information on the budget as quickly as possible, this management bulletin focuses on major highlights. We will issue a final management bulletin after the budget is acted on by the Legislature and signed by the Governor, and a more comprehensive review of the budget, **Report on the Budget Act of 2002**, at a later date. Copies of this bulletin, as well as future budget-related documents, will be available at <http://www.cde.ca.gov/fiscal/> on the California Department of Education's web site. Copies of budget documents themselves are available through the Department of Finance's web site (<http://www.dof.ca.gov/>).

MAY REVISION OVERVIEW

The state revenue picture for 2002-03 has worsened since January. The May revision documents cite "a precipitous decline in revenues from the personal income tax on capital gains and stock options" and a national recession. In January, the state Department of Finance (DOF) projected a \$12.5 billion gap between projected revenues and projected expenditures over the two-year period ending in 2002-03. In May, the DOF is projecting a \$23.6 billion gap.

To bridge this gap, the May revision proposes a mix of program reductions (\$7.6 billion), tax increases, and "the maximum fiscally responsible level of fund shifts, loans, accelerations, transfers, and deferrals." The proposal decreases year-to-year spending by 0.5% and contains a reserve of \$516 million, or 0.7% of revenues.

PROPOSITION 98 AND K-12 EDUCATION OVERVIEW

Under Proposition 98, the revenues assumed in the May revision result in required funding levels of \$37.7 billion (state and local funds) in 2001-02 and \$46.3 billion in 2002-03 for ongoing program purposes in K-12 schools, other educational agencies, and community colleges. These

figures are based on “Test 3” under Proposition 98 in 2001-02 and “Test 2” in 2002-03. As part of the Proposition 98 calculation, the Constitution allows the state to provide a lower funding level (Test 3) than otherwise required in years when personal income growth exceeds General Fund revenue growth, although the full Test 2 funding level must eventually be restored in later years as revenues improve. The May revision budget proposal exceeds the minimum funding level for both years, by \$5.5 billion in 2001-02 and \$870 million in 2002-03. The \$870 million augmentation above the required level in 2002-03 provides Proposition 98 funding at the fully restored Test 2 level.

Focusing on K-12 education, the May revision budget proposal provides \$38.4 billion (state and local funds) in 2001-02 and \$42.3 billion in 2002-03 for K-12 education under Proposition 98. The proposal for 2001-02 is \$2.1 billion below the budget for the current year enacted in July 2001. This figure consists of \$454 million in reductions that were approved by the Legislature in February and \$1.6 billion in new reduction and deferral proposals.

The proposal for 2002-03 is \$1 billion higher than the amount proposed in January. On a per-ADA (average daily attendance) basis, K-12 Proposition 98 funding is \$6,618 in 2001-02 (5.5% below the 2001-02 Budget Act level of \$7,002) and \$7,186 in 2002-03 (2.6% above the 2001-02 Budget Act level).

The May revision budget also includes \$512 million in one-time funds for K-12 education in 2002-03. The 2002-03 funding level is an increase of \$23 million over the amount proposed in January. These funds are reverted from previous Proposition 98 appropriations so they must be spent for Proposition 98 purposes, but they do not count in the Proposition 98 totals.

Finally, the May revision budget includes reductions in non-Proposition 98 General Fund education programs and \$738 million in new federal funds related to the No Child Left Behind Act.

Proposition 98 Changes in Detail

There are a great number of individual changes proposed in the May revision. The changes are listed in detail in the Appendix. The significant changes affecting Proposition 98 fall into the following categories:

- Funding shifts for programs originally proposed to be funded from one-time funds. These programs will instead be funded from ongoing funds. The one-time funds freed up as a result of this action will be used for adult education and alternative certification and pre-internship programs in the current year.
- Deferral of expenditures from the current year to the budget year for some programs in which funds have not yet been distributed.
- Delay of funding of some 2002-03 programs until 2003-04.
- Full funding of ADA growth and a 1.66% cost-of-living adjustment (COLA), with apportionments and special education receiving a 2% COLA.
- Child development proposals.
- Funding reductions.

Funding Shifts

The May revision proposes to use one-time funding originally proposed for a group of 2002-03 programs instead for current-year expenses for adult education and 2002-03 expenses for alternative certification and pre-internship programs. Most of the affected 2002-03 programs are proposed to be funded with ongoing funds at the same level as originally proposed. However, the May revision proposes to eliminate the January proposal for \$75 million for science laboratory materials and reduce the proposed funding levels for mathematics and reading professional development (because federal funding will be available for this purpose), one-time grants for instructional materials, and California School Information Services (CSIS) local grants.

Deferral of Programs from 2001-02 to 2002-03

The May revision proposes to defer spending on some 2001-02 programs until 2002-03. The largest of these programs is targeted instructional improvement grants at \$713 million. The funds for these programs have not yet been distributed to local education agencies.

Delay of Funding for Programs Until 2003-04

The May revision proposes to delay implementation and funding of some 2002-03 programs until 2003-04. The largest of these programs is the high priority schools grant program at \$157 million.

Full Funding of Growth and COLA

The May revision proposes to fully fund ADA growth, now estimated at 1.9% in 2001-02 and 1.37% in 2002-03, and a 1.66% cost-of-living adjustment (COLA). The May revision proposes a 2% COLA for apportionments and special education, which is above the statutory level. The estimated 2002-03 COLA amounts per unit of ADA are \$89 for elementary school districts, \$108 for high school districts, and \$93 for unified districts.

Child Development Proposals

The May revision proposes to withdraw the child care restructuring proposals contained in the January budget, and restores all programs to previous funding levels, except for the CalWORKs child care programs. The proposal makes several adjustments to CalWORKs child care programs resulting in overall increases in funding. For the CalWORKs Stage 2 program, the May revision proposes a net increase of \$46.9 million. For CalWORKs Stage 3, which was proposed to be phased out in the January budget, the May revision restores full funding with a net increase of \$278 million. This funding will serve existing caseload and all families that will time out of Stages 1 and/or 2 through June 30, 2003. The May revision funding increases are supported in part by approximately \$145 million of one-time funds, setting up next year to be another extremely difficult budget exercise.

The May revision proposes to maintain funding for the Before- and After-School Program at the level proposed in January—an overall increase of \$75 million from current-year funding levels. However, the May revision shifts funding by swapping General Fund dollars for new federal grant funds from the 21st Century Community Learning Centers Program.

The May revision also includes changes to provisional language that would require the California Department of Education to work with the Department of Social Services and the Department of Finance to develop a new methodology for conducting the annual market rate survey which determines the regional market rate ceilings for child care programs.

Funding Reductions

The May revision proposes funding reductions in both 2001-02 and 2002-03. Some of the reductions are technical and reflect lower expenditures than originally budgeted. The most significant of the program reductions include \$30 million (2002-03) for the teaching as a priority block grant, \$20 million (2001-02) for the high priority schools grant program, and \$8 million (2002-03) for the secondary schools reading program. For these programs, federal funds will be available to offset all or part of the reduction in state funding. Other significant reductions include \$11 million from the digital high school program and \$8.2 million from special education. The special education reduction is offset by additional federal funding.

The May revision proposes to require special districts crossing county boundaries and redevelopment agencies to contribute to the Educational Revenue Augmentation Fund. This has no effect on total spending for Proposition 98 but reduces the state General Fund share under Proposition 98 by around \$115 million.

Non-Proposition 98 Changes

The May revision proposes to reduce \$48 million from stipends for professional development institutes operated by the University of California. Funding for this purpose may be offset by federal funds. The May revision also proposes to reduce the Advancement Via Individual Determination (AVID) program by \$6.3 million.

Federal Changes

The May revision contains \$738 million in new federal funds related to the new No Child Left Behind Act. Under the proposal, the major federal appropriations would be as follows:

- Title I, Part A, basic grants—\$1.5 billion. This is a \$308 million increase over the January proposal and includes allocations for school improvement (\$22.6 million) and school assistance teams (\$6.5 million).
- Title I, Part B, reading first—\$131.1 million. This is a new program.

- Title II, improving teacher quality—\$322 million. This replaces the Eisenhower program (\$45.8 million) and class size reduction (\$174.7 million), with a net increase of \$101.5 million over the January budget.
- Title III, immigrant/bilingual and English language acquisition programs—\$244.7 million. This is an increase of \$86.9 million over the January budget.
- Title IV, safe and drug-free schools—\$52.2 million. This is an \$11.7 million increase over the January proposal and includes an allocation for a new program to support community service for suspended and expelled students (\$6.3 million).
- Title V, innovative programs—\$78.9 million. This is a \$5.1 million increase over the January proposal and includes allocations for Comprehensive School Reform Demonstration programs (\$39.7 million) and innovative programs (\$39.1 million).
- Title VI, assessment—\$20.7 million. This is a new program.
- Enhancing education through technology—\$83.8 million. This is a \$28.9 million increase over the January proposal.

NEXT STEPS IN THE PROCESS

The budget subcommittees have already met to consider the May revision proposals and are acting quickly to complete their work on the budget. After consideration by the full budget committees and both houses, the budget will move to a joint budget conference committee, which will act on differences between the two houses' versions. After final action by both houses, the final Budget Bill should be passed to the Governor in late June. Upon receiving the final Budget Bill, the Governor may then exercise his line-item veto before signing the Budget Act of 2002.

Questions regarding this bulletin should be directed to the Fiscal Policy Office of the School Fiscal Services Division at (916) 323-8068.

NOTICE:

The guidance in this bulletin is not binding on local education agencies or other entities. Except for the statutes, regulations, and court decisions that are referenced herein, this bulletin is exemplary, and compliance with it is not mandatory. (See Education Code Section 33308.5.)

APPENDIX

May Revision Changes Compared to January Budget Proposition 98 Appropriations (Dollars Reported in Thousands)

	Ongoing 2001-02	Ongoing 2002-03	One-time 2002-03
Funding shifts			
Instructional materials--one-time grants		\$150,000	-\$200,000
Instructional materials--libraries		80,000	-100,000
Mathematics and reading professional development		8,800	-87,072
Instructional materials--science laboratory materials			-75,000
CSIS		11,290	-15,500
Principal training		7,500	-7,500
High-tech high schools		4,000	-4,000
Alternative certification and pre-internship programs			8,350
Adult education	-\$503,433		503,433
Defer from 2001-02 to 2002-03			
Targeted instructional improvement grants	-713,360	713,360	
High Achieving/Improving Schools	-144,300	144,300	
Instructional time and staff development reform	-76,000	76,000	
Testing--STAR	-60,643	60,643	
Beginning teacher support and assessment	-39,000	39,000	
Delay to 2003-04			
High priority schools grant program		-157,000	
Certificated staff performance incentive		-50,000	
Education technology staff development		-9,650	
Governor's reading awards		-4,000	
Growth and COLA			
Growth		293,432	
COLA--1.66% and 2.0%		-80,446	
Child development	-20,014	-110,495	
Funding reductions			
CalSAFE implementation delay	-35,000	-35,000	
High priority schools grant program	-20,000		

	Ongoing 2001-02	Ongoing 2002-03	One-time 2002-03
Digital high school	-11,000		
Charter school facilities grants	-5,000		
Testing--STAR contract	-5,000		
Advanced Placement challenge grants	-4,000		
High-risk youth education and public safety	-4,000		
Teaching as a priority block grant		-30,000	
Testing--contract savings		-14,786	
Independent study--county offices of education		-10,398	
Advanced Placement teacher training		-8,250	
Special education federal funding		-8,169	
Secondary schools reading		-8,000	
Academic volunteer and mentor service		-4,300	
Student academic partnerships		-2,000	
Baseline, technical, and miscellaneous	55,397	-7,808	
Total	-\$1,585,353	\$1,048,023	\$22,711